

January 27, 2009

Memo To: Amy White

From: Bob Marple

Southgate Water Systems, Inc. is 100% owned by Gerald Manuel. Since the company was started in 1973 he has advanced money to the corporation. A schedule of the funds advance is attached. He did not prepare notes and no interest has been paid on the amounts loaned. If it is required, a part of the \$640,156 could be transferred to paid-in capital and an interest-bearing note prepared for the balance.

There were no specific costs for the water rights. They were obtained as part of the process of drilling the wells, construction of pipe lines, etc. These costs were capitalized (as shown on the depreciation schedule) and are being depreciated.

Please let me know if you have any questions on this.

Thanks.



REM/ngm

Enclosures

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Southgate Water Systems, Inc.
Kennewick, WA

Schedule of Funds Advanced
to Corporation
by Gerald Manuel

Funds advanced during years 1984 thru 2000 for capital additions and to fund net operating losses. Funds were used for capital additions of \$345,438 with the balance used by losses. \$482,506

Loan activity 1-1-01 thru 12-31-07

2007	Loans	27,044
2006	Loan Repayments	(11,645)
2005	Loan Repayments	(13,468)
2004	Loans	47,416
2003	Loans	32,220
2002	Loans	47,656
2001	Loans	<u>28,427</u>
	Balance 12-31-07	<u>\$640,156</u>